

Legislative Council Panel on Housing

Review of the Waiting List Income and Asset Limits for 2007/08

PURPOSE

This paper briefs Members on the findings of the review of the Waiting List (WL) income and asset limits for 2007/08.

THE REVIEW

2. The findings of the review are set out in the Memorandum for the Housing Authority's Subsidized Housing Committee (SHC) at **Annex**. Overall, the income and asset limits for 2007/08 would increase by an average of 5.2% and 1.8% respectively over those for 2006/07. Some 119 600 non-owner occupied households in the private sector (31.7%) would be eligible for PRH, up 2 700 from the current 116 900 households (31%).

3. Members are invited to note the findings of the review, which will be considered by the SHC on 12 March 2007.

Housing Department
February 2007

THE HONG KONG HOUSING AUTHORITY

Memorandum for the Subsidised Housing Committee Review of Waiting List Income and Asset Limits for 2007/08

PURPOSE

This paper reviews the Waiting List (WL) income and asset limits for 2007/08.

BACKGROUND

2. The mission of the Housing Authority (HA) is to provide subsidized public rental housing (PRH) to families in genuine need, i.e., those who cannot afford renting accommodation in the private market. Eligibility for PRH is defined by way of the WL income and asset limits, which essentially measure the amount of household income required for renting private accommodation comparable to PRH while meeting other non-housing expenditure. Families with income and asset not exceeding the prescribed limits are deemed unable to afford renting private accommodation, and hence eligible for PRH. To ensure that the limits reflect closely the prevailing socio-economic circumstances, it has been HA's established practice to review and update these annually.

3. The current methodology for assessing the WL income and asset limits was developed in 2002 following a comprehensive review. In 2005, Subsidised Housing Committee (SHC) decided to set the asset limits for elderly households at two times the limits for non-elderly applicants. It further decided in 2006 to adjust the asset limits with reference to the Consumer Price Index (A) (CPI(A)). **Annex A** sets out the operation of the methodology for setting the WL income and asset limits.

THE REVIEW

4. Assessment of the WL income and asset limits is in the main affected by the movement in the CPI(A), private rentals and the size of the “reference flats”¹. This year’s review also adopts the latest household expenditure statistics from the 2004/05 Household Expenditure Survey (HES), which were released by the Census and Statistics Department (C&SD) in June 2006². In brief -

- (a) both the CPI(A) and private rentals have gone upwards since the last review in March 2006 in tandem with the general economic trend;
- (b) the size of the “reference flats” has dropped as the problem of an excess supply of large PRH flats continues to diminish; and
- (c) the findings of the 2004/05 HES indicate that there was a notable change in the expenditure pattern of different households over the past few years. Compared with the 1999/2000 HES, there was a marked increase in the non-housing expenditure of two-person households and a slight drop among three-person and four-person households.

5. The latest position of the key parameters for assessing the WL income and asset limits as at the fourth quarter of 2006 is set out below-

¹ The “reference flats” have been adopted to assess the expenditure required for renting private flats that are comparable to PRH. The size of the “reference flats” is determined with reference to the average space of PRH units allocated to WL applicants in the past three years, but excluding all those units converted from HOS and 3-bedroom units allocated to 4-person households.

² The HES provides the necessary statistics on the average household expenditure of the lower half expenditure group amongst tenant households in the private sector. The statistics form the basis for assessing the non-housing expenditure of different household sizes in calculating the WL income limits. As C&SD only conduct the HES every five years, the household expenditure is adjusted according to the movement in CPI(A) (excluding housing cost) for the reviews conducted in between the two HESs. The present review adopts the 2004/05 HES findings released in June 2006 whereas the data from the 1999/2000 HES were used in last year’s review.

	<u>4Q 2005</u>	<u>4Q 2006</u> (% Change)
(a) Differential Unit Rents of Private Flats (per m ² IFA)		
- 1-person	\$142	\$145 (+2.1%)
- 2-person	\$130	\$139 (+6.9%)
- overall*	\$130	\$135 (+3.8%)
(b) Reference Flats Size	<u>02/03-04/05</u>	<u>03/04-05/06</u>
- 1-person	16.3 m ² IFA	16.0m ² IFA (-1.8%)
- 2-person	24.6 m ² IFA	24.0m ² IFA (-2.4%)
- 3-person	32.5 m ² IFA	31.5m ² IFA (-3.1%)
- 4-person	39.0 m ² IFA	38.5m ² IFA (-1.3%)
(c) Consumer Price Index (A) (2004/2005 = 100)		
- overall**	100.9	102.7(+1.8%)
- excluding housing cost***	100.4	101.3(+0.9%)
(d) Non-housing Expenditure adjusted by CPI(A) on non-housing cost	(Based on 1999/2000 HES Results)	(Based on 2004/05 HES Results)
- 1-person	\$4,114	4,170(+1.4%)
- 2-person	\$6,574	6,911(+5.1%)
- 3-person	\$7,267	7,191(-1.0%)
- 4-person	\$8,810	8,684(-1.4%)

* Overall average unit rent will be adopted for assessing the housing expenditure of households comprising three or more members.

** The overall CPI(A) will be used to adjust the asset limits.

*** The CPI(A) (excluding housing cost) will be used to adjust the non-housing expenditure.

6. The projected income and asset limits derived in the light of the above parameters are as follows-

Household Size	Existing Income Limits for 2006/07	Existing Asset Limits for 2006/07	Projected Income Limits for 2007/08	Projected Asset Limits for 2007/08
1	\$6,800	\$173,000	\$6,800 (±\$0)	\$176,000 (+\$3,000)
2	\$10,300	\$234,000	\$10,800 (+\$500)	\$238,000 (+\$4,000)
3	\$12,100	\$305,000	\$12,000 (-\$100)	\$310,000 (+\$5,000)
4	\$14,600	\$356,000	\$14,600(±\$0)	\$362,000 (+\$6,000)

No. of non-owner occupied households in private sector eligible for PRH

	116 900 (31.0%)	119 600 (31.7%)
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Note : The asset limits for elderly households will be set at two times the limits for non-elderly applicants.

7. Details of the calculation are at **Annex B**. It is of interest to note that amongst all the households, only the projected income limit for three-person households shows a slight decline of \$100 to \$12,000. This is largely attributable to the drop in the size of the “reference flat” and in the non-housing expenditure of three-person households as reflected in the 2004/05 HES. Given that the extent of downward adjustment so assessed is relatively small and not in line with the general trend for other households, it is recommended that the income limit for three-person households be kept at \$12,100.

8. Overall, the income and asset limits for 2007/08 would increase by an average of 5.2% and 1.8% respectively over those for 2006/07. Some 119 600 non-owner occupied households in the private sector³ (31.7%) would be eligible for PRH, up 2 700 from the current 116 900 households (31.0%).

³ It should be stressed that this figure only gives a “snapshot” of the position as of 3Q2006. The number of non-owner occupied households in the private sector will change over time, so will the proportion of them eligible for PRH. The total number of households eligible for PRH is also far greater than that suggested by this figure as households split from existing PRH tenants, HOS/PSPS owners or owner-occupied households in the private sector may also apply for PRH.

FINANCIAL AND STAFFING IMPLICATIONS

9. The review itself does not have any financial and staffing implications. The proposed moderate adjustments to the WL income and asset limits are unlikely to affect in any significant way the demand for PRH.

PUBLIC REACTION AND PUBLICITY

10. This annual exercise to review the WL income and asset limits invariably attracts keen media and public interest. The proposed moderate adjustments to the income and asset limits for 2007/08, which have been assessed according to the established mechanism, should be acceptable to the community at large.

11. A press release will be issued to announce the findings of this review.

ADVICE SOUGHT

12. Members will be invited to endorse the proposed WL income and asset limits for 2007/08 at **Annex C**. Subject to Members' endorsement, the new limits will be effective on 1 April 2007.

Miss Elisa TSUI
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(Strategy Division)
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Mechanism for Setting of the Waiting List Income and Asset Limits

Waiting List Income Limits

- The Waiting List (WL) income limits are derived from a “household expenditure” approach which consists of housing costs and non-housing costs-
 - (a) *Housing costs*: the rent payment, rates and management fees required for a household to rent a private flat of comparable size to PRH. The exact figure is obtained by multiplying the average space allocated to Waiting List applicants in the past three years by a unit rent derived from a sample survey on private dwellings conducted by the Census and Statistics Department (C&SD). In the calculation, the differential unit rent for the respective household size or the overall average unit rent, whichever is higher, is adopted, while all those HOS flats which were transferred to PRH and those 3-bedroom flats allocated to 4-person households are excluded.
 - (b) *Non-housing costs*: the average non-housing expenditure of the lower half expenditure group amongst tenant households in the private sector. The statistics are obtained from the latest Household Expenditure Survey (HES) conducted by C&SD and adjusted annually according to the movement in Consumer Price Index (A) (excluding housing cost). The expenditure pattern of those households comprising solely elderly or non-working members are excluded in deriving the non-housing expenditure. The present review has been based on data from the 2004/05 HES. In the review last year, 1999/2000 HES data were used.
- The WL income limits for different household sizes are the respective sums of the above two cost items, plus a 5% “contingency” provision.

Waiting List Asset Limits

- The WL asset limits for 2005/06 are adopted as the basis for future annual adjustments with reference to movements in Consumer Price Index (A) (CPI(A)) over the year. The asset limits for elderly households are set at two times the limits for non-elderly applicants.

Annual Adjustment

- The WL income and asset limits are reviewed annually at the beginning of each year using latest available statistics as at the fourth quarter of the previous year.

Mandatory Provident Fund Contributions

- Statutory contributions under the Mandatory Provident Fund (MPF) Scheme are deductible from a household's income when it applies for PRH. In other words, for households contributing 5% of their income under the MPF, the effective WL income limits applicable to them are about 5.26% higher than the prescribed limits.

Projected Waiting List Income Limits for 2007/08

- A. Rent^(a)
- obtained by multiplying average size of accommodation by unit rent^(a)
 - the average size of accommodation is equivalent to the average space allocated to the waiting list applicants in 2003/04 - 2005/06^(b)
 - differential and overall average unit rents of private flats (flat size of 69.9m²SA or below) are derived from the Rent Survey 4th quarter 2006 conducted by the Census and Statistics Department^(c)

Household size	Unit Rent (\$/m ² IFA)
1	145
2	139
Overall Average	135

B. Average non-housing expenditure :

- based on the expense pattern of tenant households in private permanent housing and those in private temporary housing in the lower half expenditure group in accordance with the 2004/05 Household Expenditure Survey^(d) and adjusted by CPI(A) (excluding rent & rates & government rent & management fee) 4th quarter 2006. Households with all elderly or non-working members have been excluded from the calculation.

Household size	Average size of accommodation ^(b) (m ² , IFA)	Housing Expenditure ^(a) (\$p.m.)	Non-housing expenditure (\$p.m.)	Total household expenditure (\$p.m.)	Projected income limits ^(e) (\$p.m.)	Existing income limits		
						(\$p.m.)	(\$p.m.)	Change (%)
1	16.0	2,320	4,170	6,490	6,800	6,800	0	0.0
2	24.0	3,336	6,911	10,247	10,800	10,300	500	4.9
3	31.5	4,253	7,191	11,444	12,000	12,100	-100	-0.8
4	38.5	5,198	8,684	13,882	14,600	14,600	0	0.0
5	41.6	5,616	10,491	16,107	16,900	16,300	600	3.7
6	48.9	6,602	12,297	18,899	19,800	18,100	1,700	9.4
7	51.7	6,980	13,407	20,387	21,400	19,700	1,700	8.6
8	54.7	7,385	14,415	21,800	22,900	21,300	1,600	7.5
9	58.7	7,925	15,338	23,263	24,400	22,400	2,000	8.9
10+	63.9	8,627	16,191	24,818	26,100	23,900	2,200	9.2
Average	-	-	-	-	-	-	-	5.1
Number of non-owner occupier households in private sector within WLILs ^(f)								
1p					41,800	41,800	0	0.0%
2p+					77,800	75,100	2,700	3.6%
Total					119,600	116,900	2,700	2.3%
As a % of total number of non-owner occupier households in private sector in Hong Kong ^(g)					31.7%	31.0%		

Notes : (a) includes rent, rates and management fees of private flats below 70m² SA.

(b) excludes HOS transferred flats and 3-bedroom flats allocated to 4-person households in calculating the average size of accommodation.

(c) includes households renting individual flats, rooms & bedspaces, etc.

(d) latest available source of information.

(e) including 5% contingency provision.

(f) derived by matching the proposed income limits with the income data captured by the General Household Survey conducted by the Census and Statistics Department.

(g) according to the Census and Statistics Department, the total number of private non-owners in HK is estimated to be around 377,500 households in 3rd quarter 2006.

Projected Waiting List Asset Limits for 2006/07**(with reference to movements in CPI(A) as at 4Q 2006)**

Household Size	Projected WLALs (\$)	Existing WLALs (\$)	Change (%)
1	176,000	173,000	1.7%
2	238,000	234,000	1.7%
3	310,000	305,000	1.6%
4	362,000	356,000	1.7%
5	403,000	396,000	1.8%
6	435,000	427,000	1.9%
7	465,000	457,000	1.8%
8	487,000	478,000	1.9%
9	538,000	528,000	1.9%
10	579,000	569,000	1.8%
			(Average: 1.8%)

Proposed Waiting List Income and Asset Limits for 2007/08

Household Size	Existing WL Income Limits for 2006/07	Existing WL Asset Limits for 2006/07	Proposed WL Income Limits for 2007/08	Proposed WL Asset Limits for 2007/08
1-Person	\$6,800 (\$7,158)	\$173,000 [\$346,000]	\$6,800 (\$7,158)	\$176,000 [\$352,000]
2-Person	\$10,300 (\$10,842)	\$234,000 [\$468,000]	\$10,800 (\$11,368)	\$238,000 [\$476,000]
3-Person	\$12,100 (\$12,737)	\$305,000 [\$610,000]	\$12,100 (\$12,737)	\$310,000 [\$620,000]
4-Person	\$14,600 (\$15,368)	\$356,000 [\$712,000]	\$14,600 (\$15,368)	\$362,000 [\$724,000]
5-Person	\$16,300 (\$17,158)	\$396,000	\$16,900 (\$17,789)	\$403,000
6-Person	\$18,100 (\$19,053)	\$427,000	\$19,800 (\$20,842)	\$435,000
7-Person	\$19,700 (\$20,737)	\$457,000	\$21,400 (\$22,526)	\$465,000
8-Person	\$21,300 (\$22,421)	\$478,000	\$22,900 (\$24,105)	\$487,000
9-Person	\$22,400 (\$23,579)	\$528,000	\$24,400 (\$25,684)	\$538,000
10-Person and above	\$23,900 (\$25,158)	\$569,000	\$26,100 (\$27,474)	\$579,000

Figures in [] denote asset limits for elderly households (both nuclear and non-nuclear households comprising solely elderly members).

Figures in () denote the effective income limits should a household be contributing 5% of its income under the Mandatory Provident Fund (MPF) Scheme as required by the law.